

# FDIC State Profile

Summer 2005

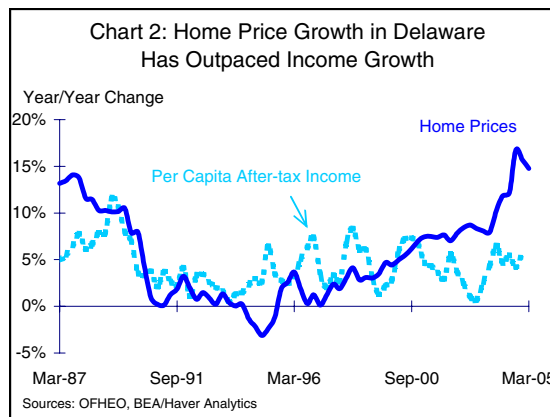
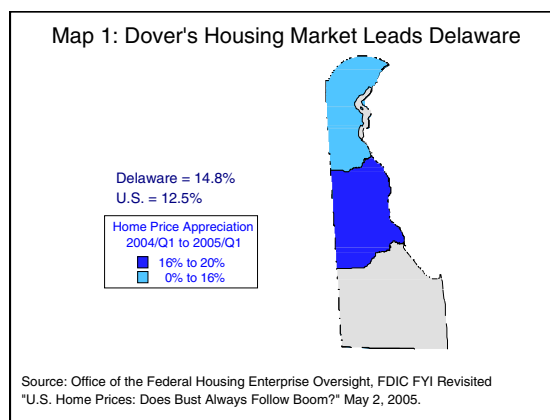
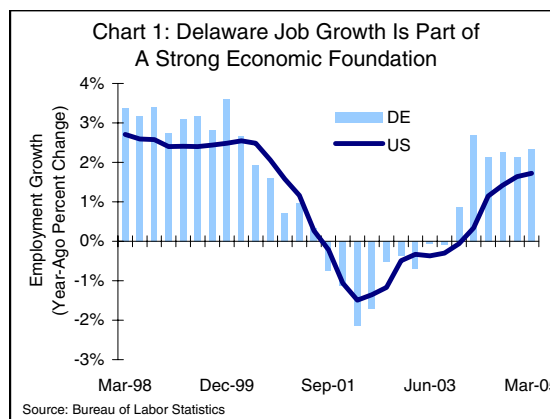
## Delaware

Job gains and stable income growth provide Delaware with a solid economic foundation.

- Delaware's employment growth has outpaced the U.S. rate for the past two years (See Chart 1). Growth has been in hospitality (restaurants) and health care, which reflects an increasing and aging population.
- The state's manufacturing sector continues its retrenchment, with job declines in transportation equipment and chemicals. Manufacturing jobs have been replaced by retail, construction, and service jobs.
- **Dover's** rate of job growth remains strong; however, the pace of job creation has eased. In first quarter 2005, Dover's job growth rate ranked 45<sup>th</sup> highest among the nation's 392 cities, down from the 10<sup>th</sup> highest a year ago.
- Dover Air Force Base (DAFB) should remain a stable employer in the area. DAFB employs more than 4,000 people (over 5 percent of Dover's labor force) and may add 248 jobs as a result of the May 2005 Base Realignment and Closing (BRAC) recommendations. The BRAC recommendation, however, calls for a net reduction of 157 jobs at New Castle County's Air National Guard base.

Home price gains in Delaware exceed the U.S. average and outpace growth in personal income.

- Home price appreciation exceeds the national average across the state (See Map 1). Dover's appreciation rate has nearly doubled over the past year ending first quarter 2005, and recent appreciation rates exceed the levels achieved during the area's late 1980s housing boom. Increased population (primarily in-migration), improved job growth, and innovative mortgage products have contributed to strong home price growth.
- Home price appreciation has outpaced personal income growth during the past several years, and the gap has significantly widened (See Chart 2).
- Home price appreciation in excess of income growth may constrain housing affordability, particularly for first-time home buyers and borrowers with marginal finances.



## State Profile

**Strong home price appreciation has contributed to increased popularity of adjustable-rate mortgages (ARMs) in the state.**

- Despite historically low long-term mortgage rates, the use of ARMs has increased significantly among borrowers in Delaware (See Chart 3).
- Additionally, the use of innovative mortgage products, such as Interest-Only loans and Option ARMs that are designed to minimize initial monthly payments, has increased nationwide suggesting that buyers are stretching to keep pace with increasing home prices. These mortgage products may expose homeowners to greater repayment risk should the loan re-price or principal payments begin.

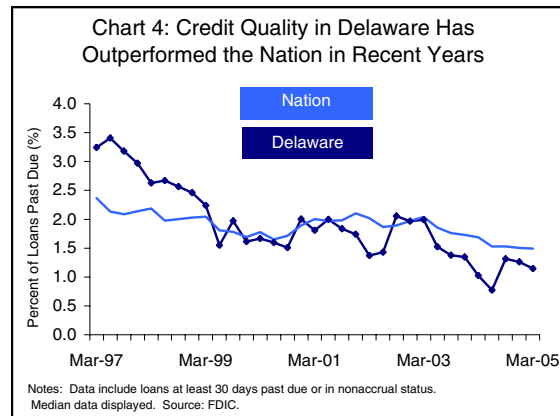
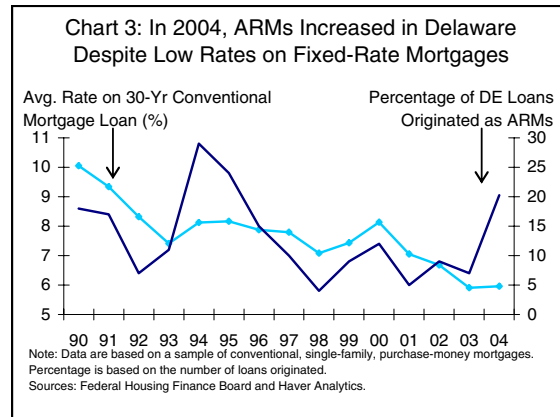
**The state's FDIC-insured institutions reported slightly lower profitability.**

- The state's FDIC-insured institutions reported moderately lower profitability in first quarter 2005 compared with the same quarter one year ago, driven largely by lower net interest margins (NIMs) among the state's residential lenders.
- One quarter of insured institutions based in Delaware focus on residential mortgage lending (double the national average) and have benefited from the past year's booming housing markets, reporting strong loan growth.<sup>1</sup>
- However, residential lender net interest margins, which typically are influenced by the spread between long- and short-term rates, have narrowed as the yield curve shifted to its flattest level in four years during the second quarter 2005.<sup>2</sup>

**Delaware's credit quality continues to outperform the nation.**

- Loan credit quality, including consumer and residential loans, reported by Delaware's institutions remained favorable as the percent of loans past due remained below the national average in the first quarter 2005 (See Chart 4). In addition, the charge-off rate reported by the state's institutions declined to a four-year low.
- While consumer credit quality remained strong, an increasing number of borrowers may be vulnerable to higher debt service costs should interest rates rise; particularly those that have variable rate loans.
- Credit card lending is a key component of the state's financial service sector. Delaware's credit card specialists,

which include three of the nation's largest, hold 30 percent of credit card loans outstanding in the U.S. These institutions experienced favorable credit quality in first quarter 2005, reporting delinquency and charge-off rates below levels of one year ago.<sup>3</sup>



<sup>1</sup>"Residential lenders" are defined as insured institutions that hold at least 50 percent of assets in one-to-four family mortgage loans and mortgage-backed securities.

<sup>2</sup>The yield curve is defined as the difference between the monthly average rate on 10-year and 3-month U.S. Treasury securities.

<sup>3</sup>"Credit card lenders" are defined as insured institutions that hold at least 50 percent of assets in credit card loans and managed receivables.

## Delaware at a Glance

**ECONOMIC INDICATORS** (Change from year ago quarter, unless noted)

<b>Employment Growth Rates</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	2.3%	2.7%	-0.7%	-2.1%	1.0%
Manufacturing (8%)	-1.7%	-1.3%	-6.5%	-3.0%	-5.5%
Other (non-manufacturing) Goods-Producing (6%)	8.0%	10.2%	-4.2%	0.0%	-2.9%
Private Service-Producing (72%)	2.3%	2.9%	0.1%	-2.5%	1.9%
Government (14%)	2.7%	1.2%	0.8%	-0.6%	2.3%
Unemployment Rate (% of labor force)	4.1	4.0	3.9	3.7	3.4

<b>Other Indicators</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Personal Income	N/A	6.1%	2.0%	6.9%	6.1%
Single-Family Home Permits	-4.8%	48.3%	-2.7%	4.8%	5.0%
Multifamily Building Permits	7.5%	242.9%	-81.7%	198.4%	-12.3%
Existing Home Sales	7.2%	1.3%	22.8%	11.8%	5.8%
Home Price Index	14.8%	11.8%	8.3%	7.0%	7.4%
Bankruptcy Filings per 1000 people (quarterly level)	1.08	1.18	1.16	1.19	1.44

**BANKING TRENDS**

<b>General Information</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Institutions (#)	36	34	35	39	39
Total Assets (in millions)	443,583	227,575	197,529	172,908	168,829
New Institutions (# < 3 years)	3	4	6	8	7
Subchapter S Institutions	1	1	0	0	0

<b>Asset Quality</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.15	1.00	2.06	1.39	1.88
ALLL/Total Loans (median %)	1.30	1.45	1.46	1.54	1.22
ALLL/Noncurrent Loans (median multiple)	3.09	2.59	2.23	2.29	1.39
Net Loan Losses / Total Loans (median %)	0.22	0.31	0.27	0.29	0.33

<b>Capital / Earnings</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Tier 1 Leverage (median %)	11.46	10.46	10.17	11.97	11.05
Return on Assets (median %)	1.65	1.74	1.95	1.52	1.56
Pretax Return on Assets (median %)	2.58	2.71	3.24	2.29	2.34
Net Interest Margin (median %)	4.55	4.37	4.49	4.42	4.57
Yield on Earning Assets (median %)	6.87	6.84	7.07	7.30	7.67
Cost of Funding Earning Assets (median %)	2.38	2.34	2.61	2.80	3.43
Provisions to Avg. Assets (median %)	0.18	0.22	0.21	0.30	0.31
Noninterest Income to Avg. Assets (median %)	1.97	1.73	2.16	1.96	1.84
Overhead to Avg. Assets (median %)	4.12	4.10	3.75	4.40	4.42

<b>Liquidity / Sensitivity</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Loans to Assets (median %)	69.5	62.6	60.3	54.6	60.9
Noncore Funding to Assets (median %)	25.9	35.1	37.8	29.0	23.5
Long-term Assets to Assets (median %, call filers)	9.5	11.3	10.4	9.2	9.4
Brokered Deposits (number of institutions)	20	19	18	20	17
Brokered Deposits to Assets (median % for those above)	4.5	7.2	10.9	8.7	6.7

<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Commercial and Industrial	27.6	19.1	19.1	15.2	6.9
Commercial Real Estate	37.6	35.2	8.7	8.1	27.6
<i>Construction &amp; Development</i>	1.2	1.6	0.1	0.0	0.1
<i>Multifamily Residential Real Estate</i>	0.6	1.9	1.6	0.0	0.0
<i>Nonresidential Real Estate</i>	33.3	33.4	7.8	7.1	26.5
Residential Real Estate	165.1	183.8	169.2	104.7	109.6
Consumer	19.3	25.5	33.6	34.2	53.3
Agriculture	0.0	0.0	0.0	0.0	0.0

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	153	181,748	< \$250 million	9 (25% )
Dover, DE	10	1,376	\$250 million to \$1 billion	8 (22.2% )
			\$1 billion to \$10 billion	12 (33.3% )
			> \$10 billion	7 (19.4% )